



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

Opticare of Utah, Inc.

of

West Valley City, Utah

as of

December 31, 2009

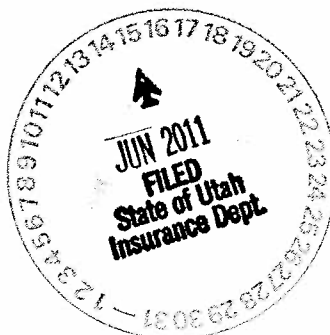


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April 18, 2011

Honorable Neal T. Gooch, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Monica J. Lindeen, Commissioner
Secretary, Western Zone, NAIC
Office of the Commissioner of Securities and Insurance
840 Helena Avenue
Helena, MT 59601

Honorable Joseph Torti, III, Superintendent
Chair, Financial Condition (E) Committee, NAIC
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

Pursuant to your instructions and in compliance with statutory requirements an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

OPTICARE OF UTAH, INC.
West Valley City, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our single-state examination of Opticare of Utah, Inc covering the period of October 1, 2005 through December 31, 2009.

Examination Procedure Employed

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The last exam was completed as of September 30, 2005. Significant findings noted in the prior examination report were resolved by the Organization unless identified as repeat exceptions in this report.

1. The insurer did not maintain complete and accurate records of forms filed. This is a recurring deficiency that was also addressed in prior examinations. (ACCOUNTS AND RECORDS)
2. It was determined that the Organization did not process all claims within 30 days. (ACCOUNTS AND RECORDS)
3. The Organization did not follow NAIC Annual Statement Instructions for reporting unpaid claims. (ACCOUNTS AND RECORDS)

SUBSEQUENT EVENTS

The Organization received a Certificate of Authority from the Arizona Department of Insurance on June 10, 2010 to transact disability insurance business limited to optometry.

The Organization amended its by-laws on January 20, 2011 to remove extraneous language regarding the number of directors.

ORGANIZATION HISTORY

General

The Organization's Articles of Incorporation filed on August 18, 1987, stated the Organization was organized under the Utah Business Corporation Act. It received a Certificate of Authority from the Utah Insurance Department to conduct an insurance business as a limited health plan pursuant to the Utah Code Annotated (U.C.A.) Title 31A, Chapter 8 on January 4, 1988, to provide vision care benefits.

The Organization's bylaws, Articles of Incorporation and minutes of the board of directors meetings held during the period covered by this examination were reviewed. The Articles of Incorporation were amended on November 30, 2009 to reflect the name change from Opticare of Utah to Opticare of Utah, Inc. and increase the amount of

common stock to 300,000 voting shares with par value of \$1 per share. The bylaws were not amended during the examination period.

Dividends and Capital Contributions

During and subsequent to the period under examination the Board of Directors authorized the following dividend payments to shareholders:

\$89,096 - April 2010
\$68,000 - September 2009
\$68,000 - October 2008
\$88,250 - August 2007
\$73,000 - June 2007

Mergers and Acquisitions

There were no acquisitions or mergers, disposals during the examination period.

CORPORATE RECORDS

The previous examination report as of September 30, 2005 dated July 7, 2006, was distributed to the board of directors on August 14, 2006.

A review of the minutes of the Board of Directors indicated that the Organization operates within the scope of its authority and is in conformity with the requirements of the Articles of Incorporation. The minutes also showed appropriate and active involvement of the Board of Directors in the business and affairs of the Organization.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Organization indicated the number of directors may be up to seven. The following persons served as directors as well as members of the Audit Committee and Executive Committee as of December 31, 2009:

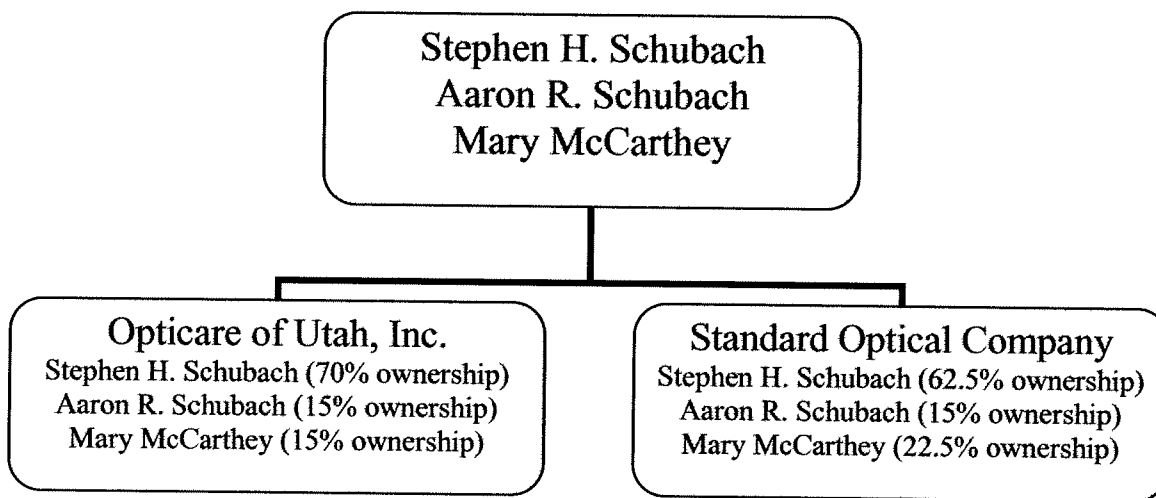
Name and Location	Title and Principal Occupation
Stephen H. Schubach Salt Lake City, UT	President Standard Optical Company
Mary McCarthey Salt Lake City, UT	President Mary McCarthey, LLC
Aaron R. Schubach Salt Lake City, UT	Vice President Standard Optical Company

The Organization's bylaws provide for officers to consist of president, vice president, secretary, and treasurer. The officers of the Organization as of December 31, 2009, were as follows:

Name	Title
Stephen H. Schubach	President
Aaron R. Schubach	Vice President/CEO
Kenneth A. Acker	Secretary/Treasurer

Holding Company

The Organization shares common ownership with affiliate Standard Optical Company as illustrated in the holding company system organizational chart below:



Transactions with Affiliates

The Organization has a Management and Administrative Agreement with affiliate Standard Optical Company (Standard) in which it provides the following services to the Organization: personnel services, accounting and annual statement services, auditing services, legal services, administration of sales, service to enrollees, collections, corporate record keeping, and general office services. The agreement provides for compensation to Standard of 20% of the monthly collected contract charges (premium).

The Organization has a Vision Care Plan Service Agreement with Standard in which it provides vision care services and products including eye examinations, glasses, and contact lenses. The Organization pays Standard for these services and products according to a fixed reimbursement schedule.

During the examination period the Organization originated three loans to Standard; two in 2006 for \$100,000 each, and one in 2009 for \$100,000. As of December 31, 2009 the book values were \$63,718, \$28,554, and \$88,769 respectively.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2009, the Organization had fidelity insurance coverage of \$25,000, an amount that is less than the \$75,000 coverage recommended by the NAIC. The coverage was increased to the recommended amount during the course of fieldwork.

Additionally, the Organization was also a named insured under policies providing property and liability coverage.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

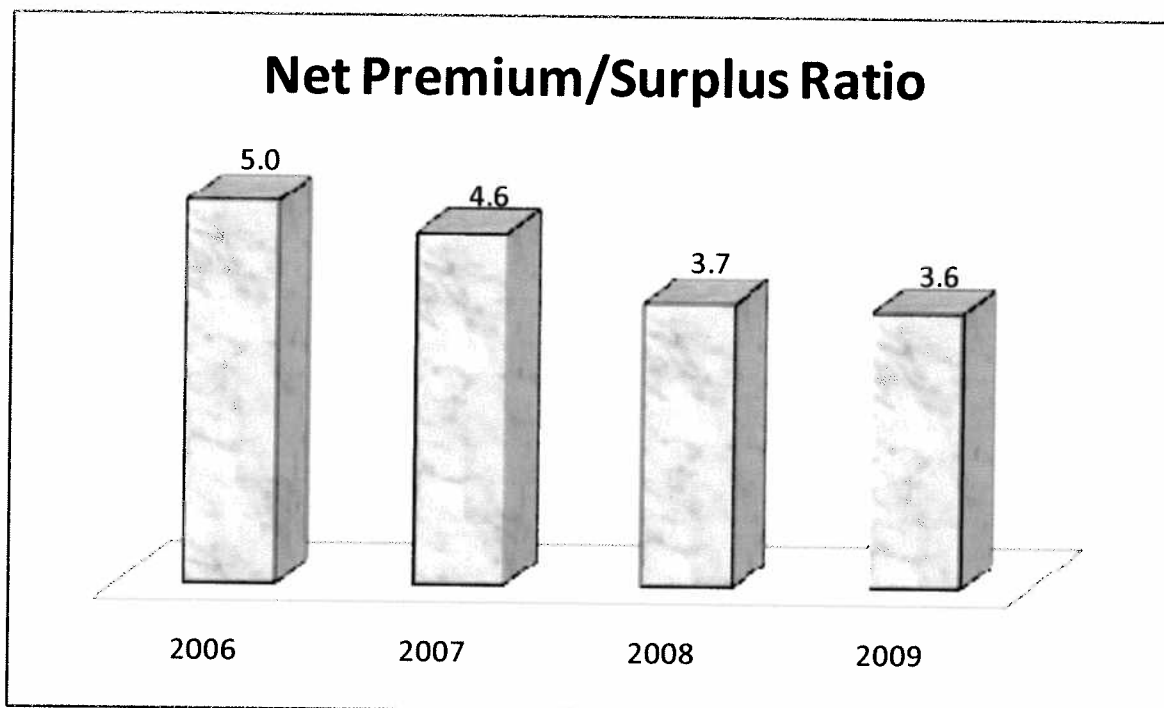
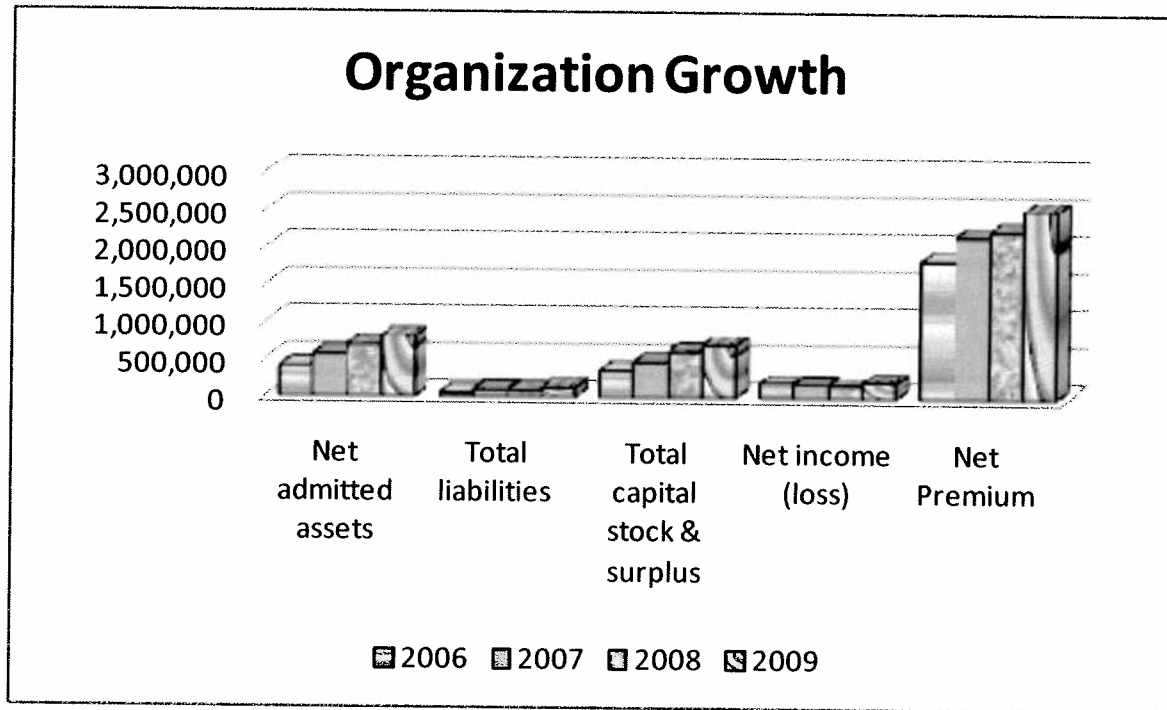
The Organization has no direct employees and is not a party to any type of retirement plan or deferred compensation plan.

TERRITORY AND PLAN OF OPERATION

The Organization is authorized to provide optical services as a limited health plan in the state of Utah as of September 30, 2005. The Organization is also authorized to transact disability insurance business limited to optometry in the state of Arizona as of June 10, 2010.

The vision products of the Organization are marketed by licensed employees of Standard, appointed independent producers, and vision kiosks. The vision products are presented at trade shows, expositions and health fairs.

GROWTH OF ORGANIZATION



REINSURANCE

There was no reinsurance in place as of December 31, 2009.

ACCOUNTS AND RECORDS

As of December 31, 2009, the Organization's accounting system consisted of a general ledger, registers, statistical and other records maintained primarily on information systems equipment and software. A thin client computer environment is utilized which operates from the server via a network connection.

An independent certified public accounting firm audited the Organization's records during the period covered by this examination. Audit reports generated by the auditors for the years 2005 through 2009 were made available for the examiner's use.

Deficiencies encountered by the examination relating to accounts and records include financial reporting errors and/or non-compliance as noted below:

1. Substantive testing indicated that 16 of 42 sampled claims (38%) were not processed within 30 days pursuant to the requirements of U.C.A. § 31A-26-301.6-3(a).
2. The Organization did not report, as required by the NAIC Annual Statement Instructions Health, its liability for known claims unpaid in the Underwriting and Investment Exhibit Part 2A of the Annual Statement, nor did it report the aging of unpaid claims as required by Aging Analysis of Unpaid Claims Exhibit 4.
3. There were six forms on file with the Department that were not included in the forms filed log provided by the Organization, therefore the Organization was not in compliance with U.C.A. § 31A-21-201(5) which requires insurers to maintain complete and accurate records of forms. This finding is a recurring deficiency that has also been presented in prior examinations. It is noted that there were no forms listed in the current examination that had not been filed with the Department.

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$12,500 pursuant to U.C.A. § 31A-8-211(3) for limited health plans. The examination confirmed that as of December 31, 2009 the Organization maintained a statutory deposit consisting of US Treasury Bills in the sum of \$57,000.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

Opticare of Utah, Inc.
BALANCE SHEET (ASSETS)
as of December 31, 2009

	<u>Net Admitted Assets</u>
Bonds	\$ 0
Common Stocks	0
Cash and Short-Term Investments	555,884
Contract Loans	0
Other Invested Assets	73,693
Investment Income Due and Accrued	0
Uncollected Premiums and Agents' Balances	181,777
Deferred Premiums and Agent's Balances	0
Amounts Recoverable from Reinsurers	0
Other Amounts Receivable Under Reinsurance Contracts	0
Current Federal and Foreign Income Tax Recoverable	0
Net Deferred Tax Asset	0
Electronic Data Processing Equipment and Software	0
Aggregate Write-Ins for other than invested assets	0
Separate accounts	0
Total Assets	\$ <u>811,354</u>

Opticare of Utah, Inc.
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
as of December 31, 2009

	<u>Current Year</u>
LIABILITIES	
Claims unpaid (less \$0 reinsurance ceded)	\$ 51,838
Accrued medical incentive pool and bonus amounts	0
Unpaid claims adjustment expenses	1,037
Aggregate health policy reserves	0
Premiums received in advance	0
General expenses due or accrued	59,705
Amounts due to parent, subsidiaries and affiliates	4,411
Total Liabilities	\$ <u>116,991</u>
SURPLUS AND OTHER FUNDS	
Common capital stock	\$ 300,000
Gross paid in and contributed surplus	61,470
Unassigned funds (surplus)	332,893
Total Capital and Surplus	\$ <u>694,363</u>
Total of Liabilities, Surplus, and Other Funds	\$ <u><u>811,354</u></u>

Opticare of Utah, Inc.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2009

	<u>Current Year</u>
Net premium income	\$ 2,521,431
Total Revenues	\$ 2,521,431
Other professional services	1,240,713
Net reinsurance recoveries	0
Total hospital and medical	\$ 1,240,713
Claims adjustment expenses	41,167
General administrative expenses	1,049,352
Increase in reserves	0
Total underwriting deductions	\$ 2,331,332
Net underwriting gain or (loss)	\$ 190,199
Net investment income earned	21,928
Net realized capital gains or (losses)	0
Net investment gains or (losses)	\$ 21,928
Net income or (loss) after capital gains tax and before other federal income taxes	\$ 212,127
Federal and foreign income taxes incurred	0
Net Income (Loss)	\$ 212,127

Opticare of Utah, Inc.
RECONCILIATION OF CAPITAL AND SURPLUS
2005 through 2009

	2005	2006	2007	2008	Per Exam 2009
Capital and surplus prior reporting year	\$ 293,183	\$ 354,825	\$ 365,577	\$ 471,055	\$ 605,115
Increase (decrease) in common stock					
Increase (decrease) in contributed capital					
Net Income (or loss)	228,667	193,485	184,286	161,810	276,470
Change in non-admitted assets	(126,023)	(196,485)	82,442	40,245	212,127
Surplus adjustment: transferred from surplus					(54,882)
Change in net unrealized capital gains and (losses)	(41,002)	13,751			(276,470)
Dividends to stockholders			(161,250)	(68,000)	(68,000)
Rounding		1		5	3
Net change in capital and surplus	61,642	10,751	105,478	134,055	89,245
Capital and surplus end of reporting year	<u>354,825</u>	<u>365,577</u>	<u>471,055</u>	<u>605,115</u>	<u>694,363</u>

COMMENTS ON FINANCIAL STATEMENTS

Capital and surplus

\$694,363

As of December 31, 2009, the Organization's minimum capital requirement was \$10,000 as specified by U.C.A. §31A-8-209(2)(a). Total adjusted capital was \$694,363, which was significantly greater than its action level risk-based capital (RBC) requirement of \$155,068, as defined by U.C.A. § 31A-17 Part 6. There were no adjustments to the Organization's capital and surplus for the purposes of this examination report.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Organization establish and maintain compliance with U.C.A. § 31A-26-301.6 to ensure timely processing of claims.
2. It is recommended that the Organization comply with Annual Statement Instructions established by the NAIC to avoid reporting errors and establish and maintain compliance with U.A.C. R590-117-4.
3. It is recommended that the Organization establish and maintain complete and accurate records of form filings in compliance with U.C.A. § 31A-21-201.

ACKNOWLEDGEMENT

Donald Catmull, CFE, Supervisory Examiner, and Aaron Phillips, CFE, IT Examiner, participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Clarissa Crisp', with a stylized flourish at the end.

Clarissa Crisp, CFE, Examiner-in-Charge
Utah Insurance Department